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AGENDA ITEM 3a

TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. SUBJECT:** Adoption of Policy on Affiliate Funds and Repeal of Policy on Annuitants' Healthcare Coverage Fund
- II. PROGRAM:** Asset Allocation
- III. RECOMMENDATION:** Recommend to the Investment Committee adoption of the Statement of Investment Policy for the Affiliate Funds and repeal of the Statement of Investment Policy on Annuitants' Healthcare Coverage Fund

IV. ANALYSIS:

The assets of CalPERS (CalPERS' Total Fund) are invested and administered by the CalPERS Board of Administration to provide retirement benefits to state employees. Additionally, CalPERS manages several smaller plans known as "Affiliate Funds" (The Affiliates). The Affiliates are established by statute, each having a unique liability structure and plan benefits. Each Affiliate Fund holds an interest in public market pooled assets of the CalPERS' Total Fund and is each managed to an individualized asset allocation strategy approved by the Investment Committee.

CalPERS' Asset Allocation/Risk Management Unit administers the asset allocation strategy and monitors the performance of the Affiliates, which are listed as follows:

- Annuitants' Healthcare Coverage Fund
- Judges' Retirement System II
- Legislators' Retirement System
- Long-Term Care Fund
- Supplemental Contribution Plan Portfolio Fund

With the exception of the Annuitants' Healthcare Coverage Fund Policy, formal investment policy has not previously been established for the Affiliates. Rather, asset allocation strategy for each Affiliate has historically been presented to the Board's Investment Committee and implemented as approved. These historical agenda items in connection with the Investment Committee minutes currently serve as the governing asset allocation strategy documents for the Affiliates.

The proposed policy (Attachment 1) will align the Affiliates with CalPERS' Total Fund investment policy initiative, providing overarching governance similar to CalPERS' Total Fund Statement of Investment Policy, and consolidate the asset allocation strategies into one governing document.

The existing Annuitants' Healthcare Coverage Fund Policy is hereby repealed and is attached (Attachment 2). The text of the existing policy has been incorporated into the proposed Statement of Investment Policy.

The Affiliates each hold an interest in various pooled fund strategies managed by CalPERS for the CalPERS' Total Fund and are subsequently governed by the applicable investment policy currently in place for each of the pooled fund strategies.

Upon approval, Staff will move forward to conduct a review of each Affiliate's asset allocation strategy to ensure the broadest investment diversification benefit. As new asset allocation strategies are formalized, this Policy will be brought back for modification.

Wilshire's opinion letter is attached (Attachment 3).

V. STRATEGIC PLAN:

This item supports Goal VIII to manage the risks and volatility of assets and liabilities to ensure sufficient funds are available, first to pay benefits and, second to minimize and stabilize contributions.

VI. RESULTS/COSTS:

There are no costs associated with this item.

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Investment Officer

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